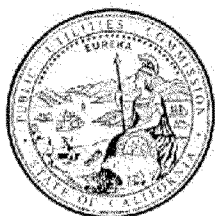


Docket:	:	<u>A.13-12-012</u>
Exhibit Number	:	<u>ORA-11</u>
Commissioner	:	<u>C. Peterman</u>
ALJ	:	<u>J. Wong</u>
Witness	:	<u>J. Oh</u>



**OFFICE OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION**

**Report on the Results of Operations
for
Pacific Gas and Electric Company
Test Year 2015
Gas Transmission and Storage Rate Case**

Chapter 11
Information Technology

San Francisco, California
August 11, 2014

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INFORMATION TECHNOLOGY

I. INTRODUCTION

This exhibit presents the analyses and recommendations of the Office of Ratepayer Advocates (ORA) regarding Pacific Gas and Electric Company's (PG&E) Information Technology (IT) proposals associated with its Test Year (TY) 2015 Gas Transmission and Storage (GT&S) rate case. Specifically, this exhibit addresses PG&E's forecasts of Information Technology (IT) operation and maintenance (O&M) expenses for 2015 and capital expenditures for 2013 through 2015.

II. SUMMARY OF RECOMMENDATIONS

Regarding IT O&M expenses ORA:

- Recommends 2015 expenses of \$10.459 million based on historical expenses, compared to PG&E's assumption-based request of \$16.342 million.
- Recommends basing the 2015 expense forecast on a trend using recorded expenses from 2009 to 2013 due to near doubling of expenses between PG&E 2012 base year and 2015 projection; and
- Does not oppose PG&E's request for system maintenance and enhancement cost for the Mariner Program (formerly called the Gas Transmission Asset Management program).

Regarding IT capital expenditures, ORA recommends:

- Adoption of PG&E's actual recorded capital spending of \$5.599 million for 2013; and
- A forecast of \$12.877 million in 2014, and \$21.047 million in 2015 for Information Technology capital projects as compared to PG&E's request of \$14.973 million and \$24.473 million due to variance of actual-to-forecast associated with PG&E's IT Concept Cost Estimating Tool.

1 Table 11-1 compares ORA's and PG&E's TY2015 forecasts of Information
 2 Technology expenses:

3 **Table 11-1**
 4 **Information Technology Expenses for TY2015**
 5 **(In Thousands of Dollars)**

Description (a)	ORA Recommended (b)	PG&E Proposed ¹ (c)	Amount PG&E>DRA (d=c-b)	Percentage PG&E>DRA (e=d/b)
Expense	\$10,459	\$16,342	\$5,883	56.2%
Total	\$10,459	\$16,342	\$5,883	56.2%

6 Table 11-2 compares ORA's and PG&E's 2013-2015 forecasts of Information
 7 Technology capital expenditures:

8 **Table 11-2**
 9 **Information Technology Capital Expenditures for 2013-2015**
 10 **(In Thousands of Dollars)**

Description	ORA Recommended			PG&E Proposed ²		
	2013	2014	2015	2013	2014	2015
Capital	\$5,599	\$12,877	\$21,047	\$10,294	\$14,973	\$24,473
Total	\$5,599	\$12,877	\$21,047	\$10,294	\$14,973	\$24,473

11 **III. OVERVIEW**

12 PG&E states that its objectives for Gas Operations include safeguarding the
 13 public and employees, ensuring regulatory compliance, employing industry best
 14 practices, increasing customer satisfaction, and protecting system integrity. PG&E
 15 testifies that IT priorities for Gas Operations in 2015-2017 support these objectives,
 16 and focus on making information about the gas transmission system easily

¹ PG&E Prepared Testimony, Volume 2 (Caffery), p. 11-3.

² Id., p. 11-4.

1 accessible and widely available in order to perform risk analysis and other necessary
2 functions.³

3 PG&E further states that numerous Gas Operations technology projects are
4 designed to enhance PG&E's ability to operate the gas transmission system safely,
5 and that technology will help identify abnormal system conditions, reduce response
6 time, and streamline the processes for transmission clearances and emergency
7 responses.⁴

8 PG&E maintains that other technology initiatives are intended to improve Gas
9 Operations' ability to manage asset information, track changes in asset conditions,
10 and present precise location data. PG&E expects these efforts to enhance PG&E's
11 analytical and decision-making capabilities, resulting in increased safety, more
12 efficient operations, and heightened productivity.⁵

13 PG&E states that it will continue deploying new mobile projects and updating
14 processes leveraging new technologies, and that older mobile devices that are not
15 integrated with PG&E's enterprise systems (such as SAP) will be replaced with
16 integrated devices.⁶

17 PG&E includes operations and maintenance expense forecasts for a set of
18 gas transmission asset management tools and applications called the Gas
19 Transmission Asset Management (GTAM) program (now known as the Mariner
20 Program) that was proposed in its Pipeline Safety Enhancement Plan (PSEP), filed
21 on August 26, 2011 in the Commission's Gas Safety Rulemaking (R.11-02-019).
22 PG&E states that the Commission did not allow cost recovery for the costs of GTAM
23 (D.12-12-030, p. 56). PG&E asserts that PG&E will complete this comprehensive
24 data integration and consolidation initiative on schedule in early 2015 and that
25 completed projects in the Mariner Program will require normal ongoing system

³ Id., p. 11-1.

⁴ Id., p. 11-1.

⁵ Id., p. 11-2.

⁶ Id., p. 11-2.

1 maintenance and enhancement costs, which PG&E did not request in its August
 2 2011 PSEP (as that filing included only the development and implementation
 3 costs).⁷

4 **IV. DISCUSSION / ANALYSIS OF GAS OPERATIONS INFORMATION**
 5 **TECHNOLOGY**

6 Tables 11-3 and 11-4 summarize ORA’s expense and capital expenditure
 7 forecasts, respectively, compared to PG&E’s request.

8 **Table 11-3**
 9 **Information Technology Expenses for TY2015**
 10 **(In Thousands of Dollars)**

Description (a)	ORA Recommended (b)	PG&E Proposed ⁸ (c)
Expense	\$10,459	\$16,342
Total	\$10,459	\$16,342

11 **Table 11-4**
 12 **Information Technology Capital Expenditures for 2013-2015**
 13 **(In Thousands of Dollars)**

Description	ORA Recommended			PG&E Proposed ⁹		
	2013	2014	2015	2013	2014	2015
Capital	\$5,599	\$12,877	\$21,047	\$10,294	\$14,973	\$24,473
Total	\$5,599	\$12,877	\$21,047	\$10,294	\$14,973	\$24,473

14 **A. Expenses**

15 PG&E requests that the Commission adopt PG&E’s 2015 gas transmission
 16 technology expense forecast of \$16.34 million. The 2015 forecast is approximately

⁷ Id., pp. 11-2 to 11-3.

⁸ Id., p. 11-3.

⁹ Id., p. 11-4.

1 \$8.033 million greater than the 2012 base year recorded expenses.¹⁰ ORA
2 recommends \$10.459 million for 2015 gas transmission technology expense.

3 **Table 11-5**
4 **2008-2013 Recorded Data for Information Technology**
5 **(in Thousands of Dollars)**

Description	2008	2009	2010	2011	2012	2013
Expense	\$2,283	\$4,521	\$5,119	\$6,301	\$8,309	\$7,951

6 Source: 2008-2012 data from GTS-RateCase2015_DR_ORA-50-Q04Atch01. 2013 data from
7 GTS-RateCase2015_DR-ORA_050-Q02Atch01.

8 PG&E's forecast of 2015 gas transmission technology expense is \$16.3
9 million and is composed of two components, a Total Project component that
10 represents the forecasted expense of the proposed capital projects of \$6.7 million,
11 and a Systems Maintenance and Fees component of \$9.6 million.¹¹ The System
12 Maintenance and Fees component represents a baseline operations and
13 maintenance expenses requested in the 2015 GT&S rate case for gas transmission
14 IT applications, a forecast to account for systems that were installed after 2013, a
15 forecast of system enhancements beyond routine system operations and
16 maintenance costs, and an adjustment to forecast based on system replacement
17 and integration.¹²

18 In the previous GT&S rate case, PG&E forecasted 2011 IT expenses of
19 \$8.230 million.¹³ As seen in Table 11-5 above, PG&E's recorded 2011 expense
20 was \$6.301 million, 23% less than forecasted for 2011.

21 ORA recommends that a five-year (2009 – 2013) trend¹⁴ be used to forecast
22 PG&E's 2015 information technology expense. A five-year trend relies on PG&E's
23 past actions, its actual commitment to IT spending, removes questions on the

¹⁰ Id., p. 11-3.

¹¹ PG&E Workpapers, Chapter 11, p. WP 11-1.

¹² Id., p. WP 11-6.

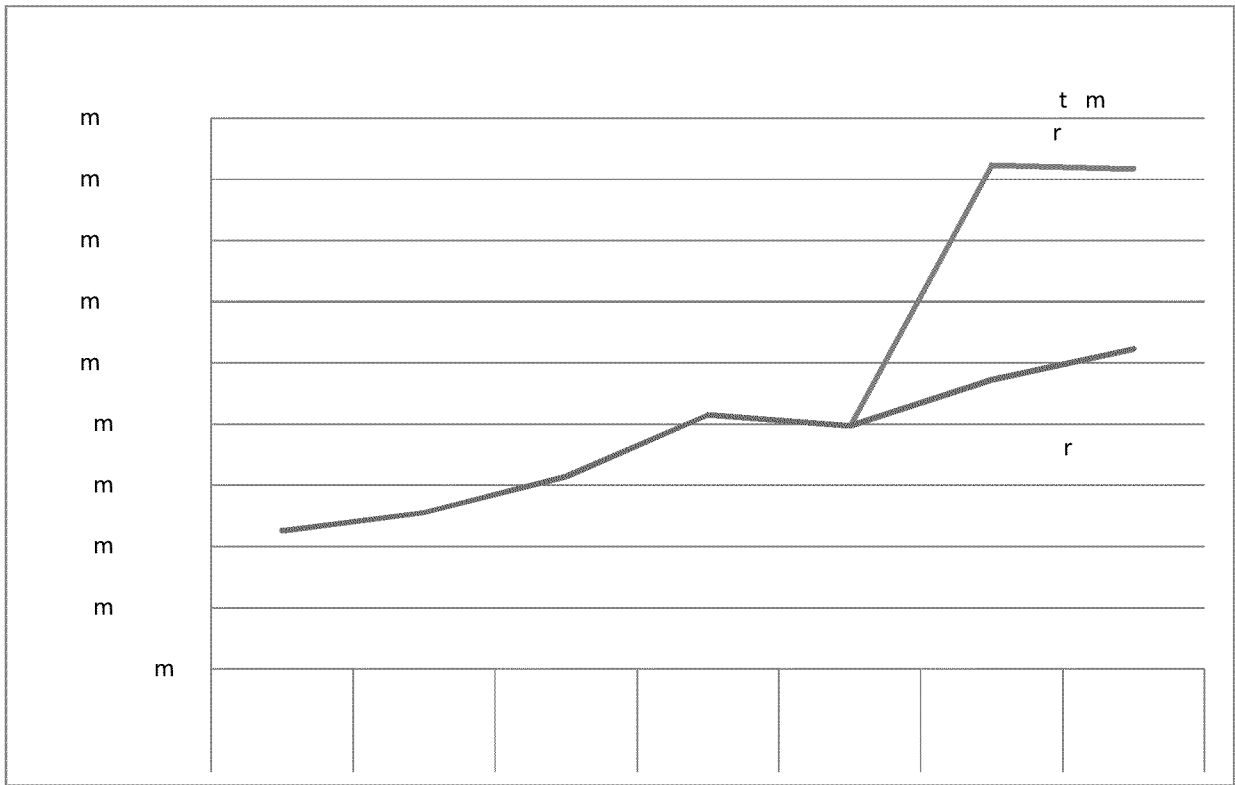
¹³ PG&E A.09-09-013 Prepared Testimony p. 5-15, Table 5-5

¹⁴ ORA used Microsoft Excel trend function which returns values along a linear trend (using the method of least squares).

1 various assumptions used, and removes any assumptions linked to the capital
2 projects.¹⁵ ORA recommends \$10.459 million for 2015 gas transmission information
3 technology expense. This forecast is \$2.1 million (or 21%) above 2012 recorded
4 and \$2.5 million (or 32%) above the 2013 recorded expense.

5 Figure 11-1 compares ORA's expense recommendation against PG&E's
6 request.

7



8

9

¹⁵ PG&E's 2015 expense forecast includes \$6.7 million in allocated expense from the forecasted capital projects.

1 In regards to the Mariner Program, ORA does not oppose PG&E’s request for
2 ongoing system maintenance and enhancement costs, and as the five-year trend of
3 recorded costs used by ORA incorporates Mariner Program expenses in 2011,
4 2012, and 2013, ORA’s recommendation for 2015 incorporates this expense.¹⁶

5 **B. Capital Expenditures**

6 PG&E requests that the Commission adopt PG&E’s gas transmission capital
7 forecast of \$10.294 million in 2013, \$14.973 million in 2014, and \$24.47 million in
8 2015. PG&E states that the 2015 capital forecast is approximately \$14.529 million
9 greater than the 2012 base year capital expenditure.¹⁷ ORA recommends \$5.599
10 million for 2013, \$12.877 million for 2014, and \$21.046 million for 2015.

11 ORA’s recommendation of \$5.599 million in 2013 is based on PG&E’s actual
12 recorded capital spending for 2013, and is 46% less than PG&E’s forecast. ORA’s
13 forecast of \$21.046 million for 2015 is more than what PG&E spent for the past three
14 years (2011 -2013) combined, which was \$19.956 million.

15 **Table 11-6**
16 **2009-2013 Recorded Data for Information Technology Capital Expenditures**
17 **(in Thousands of Dollars)**

Description	2009	2010	2011	2012	2013
Capital	\$2,124	\$2,683	\$4,433	\$9,924	\$5,599

18 Source: 2009-2013 data from PG&E response to ORA-DR-052 Q6.

19 PG&E’s information technology capital forecast consists of forecasts for 17
20 capital projects. PG&E presents the business needs for these capital projects in
21 Chapters 5, 8, 10, and 11 of its prepared testimony. While ORA does not oppose the
22 stated business needs of these projects, ORA does recommend that PG&E’s 2015
23 capital expenditure forecast be reduced by 14%. This 14% reduction is consistent
24 with ORA’s approach in the PG&E 2014 GRC (A.12-11-009), which was adopted by

¹⁶ The Mariner Program started in 2011, and as such 2009 and 2010 data is unavailable.

¹⁷ PG&E Prepared Testimony, Volume 2 (Caffery), p. 11-4.

1 the Proposed Decision of the Administrative Law Judge.¹⁸ The 14% reduction
2 reflects the actual-to-forecast difference of IT project costs that used PG&E's
3 Concept Cost Estimating Tool (the Tool). As stated in PG&E's testimony, PG&E
4 uses the Tool to forecast new project cost estimates. The Tool uses a series of
5 assumptions, along with the information the user inputs into the Tool, to calculate the
6 various costs that roll up to the initial project forecast. The assumptions include
7 percentage splits between capital and expense amounts, allocations of time across
8 the different project states (e.g., project development, testing, training, etc.) and
9 labor burdens.¹⁹

10 The Tool is a high level estimate and detailed costs will not be prepared until
11 the capital project is initiated. PG&E states "...until PG&E begins the project in
12 2015, and analyzes potential technology alternatives, the precise technology to
13 pursue cannot be determined at this time. PG&E plans to issue a Request for
14 Proposal (RFP) to understand the options to replace the current Gas Transaction
15 System (GTS). Based on the proposal options that PG&E receives, a strategy for
16 replacement and underlying technology will be selected."²⁰ The Commission should
17 deny PG&E's request based on such a high level cost forecast where the
18 appropriate technology has not yet been decided.

19 There have not been substantive changes to the Tool between the 2014 GRC
20 and the 2015 GT&S applications. The updates between A.12-11-009 and A.13-12-
21 012 were to update the department names, update the overhead percentages, and
22 some formatting and cosmetic changes,²¹ As the Tool is substantially the same,
23 and since there was no IT capital forecast included in the 2011 GT&S Rate Case
24 and no Commission adopted amount²² to compare the 2011 GT&S IT forecast to

¹⁸ Proposed Decision of ALJ Pulsifer, p. 502.

¹⁹ PG&E Prepared Testimony, Volume 2 (Caffery), p. 11-11.

²⁰ PG&E Response to ORA-DR-024 Q03a.

²¹ PG&E Response to ORA-DR-052-01.

²² PG&E Response to ORA-DR-052 Q6, Atch01.

1 actual, the findings and recommendations from A.12-11-009 relating to the Tool
2 forecast remain valid in this proceeding. ORA's recommendation reflects the
3 historical variance between the forecast using PG&E's forecast Tool and PG&E's
4 actual recorded costs, including project postponement, cancellation, and change in
5 scope and technology and therefore ORA's recommendations should be adopted
6 over PG&E's.
7